

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0332-02
Bill No.: HB 55
Subject: Education, Elementary and Secondary: Elementary and Secondary Education
Dept
Type: Original
Date: January 13, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$3,061,892)	(\$3,061,892)	(\$3,061,892)
Total Estimated Net Effect on General Revenue Fund	(\$3,061,892)	(\$3,061,892)	(\$3,061,892)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
State School Moneys Fund	\$0	\$0	\$0
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
School Districts*	\$3,061,892	\$3,061,892	\$3,061,892

* Statewide, school districts would see an increase in state aid. However, the distribution of the available money, if the appropriation is insufficient to provide for a proration factor of 1.00, would have an unknown impact in individual schools—some would be impacted positively and some negatively.

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** indicated that this proposal should not result in additional costs or savings to BAP.

Officials from the **Department of Elementary and Secondary Education (DESE)** made the following assumptions regarding this proposal:

This proposal makes two changes to the foundation formula:

1. It revises the Line 1 entitlement calculation by returning to one proration factor rather than the two proration factors adopted in SB781 (1998)
2. It removes the local district deduction for revenue received “in lieu of taxes”.

Change 1: Prior to the passage of SB 781 (1998), the Line 1 entitlement calculation was: Eligible Pupils x Equalized Operating Levy for School Purposes x the Guaranteed Tax Base (GTB) x the Proration Factor. When the appropriation exceeded the amount needed to have a

proration factor of 1.00 or was below the amount needed to have a proration factor of 1.00, one proration factor was applied to the total entitlement for all school districts regardless of the

ASSUMPTION (continued)

districts' tax rates.

SB 781 created two entitlement calculations, summed to determine the total entitlement. Line 1A uses the factors stated above for the portion of the tax rate not to exceed \$2.75. Line 1 B uses the factors stated above for the portion of the tax rate greater than \$2.75.

In the event the appropriation is below the amount needed to have a proration factor of 1.00, Line 1B is prorated first. Line 1A is not prorated until the 1B proration drops to less than .95. If the Line 1B proration factor continues to drop below .95, Line 1A is prorated downward maintaining a .05 spread between Lines 1A and 1B.

This proposal removes the language creating Lines 1A and 1B, returning the formula to the pre-SB781 language concerning the entitlement calculation.

Change 1 does not increase or decrease the amount needed to fund the formula at a proration of 1.00. The change does effect the distribution of the available money when the appropriation is insufficient to provide for a proration factor of 1.00.

Change 2: This proposal removes in Line 3 of the foundation formula the local district deduction for revenue that districts receive "in lieu of taxes". This revenue has been deducted since the implementation of the current formula in 1993-94. The amounts identified as "deductions" from the entitlement are revenues districts receive for use in the basic instructional program of the district. These deductions for local wealth reduce the state cost of the formula. Removing one of the deductions, per this proposal, increases the cost to the state to fund the formula at a proration of 1.00. The amounts received "in lieu of taxes " in the last four years are as follows:

1998-99	\$1,477,202	
1999-00	\$1,662,361	
2000-01	\$1,912,341	
2001-02	\$3,061,892	(Preliminary Data)

If this proposal was in effect in the current year (2002-03), the state cost to fund the formula at 1.00 would have increased by \$3,061,892 due to the elimination of the deduction for “in lieu of taxes”. If the assumption is made that there will be no increase in “in lieu of taxes” receipts in

ASSUMPTION (continued)

FY 2003 (a deduction in the FY04 formula), eliminating this revenue as a deduction in the formula would increase the state cost of the formula in FY 2004 at a proration of 1.00 by \$3.1 million. If the formula is not funded at a proration of 1.00 and this deduction is eliminated, the proration factor will be lower than if the deduction remained.

<u>FISCAL IMPACT - State Government</u>	FY 2004	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Cost</u> - Increased Transfers to State School Moneys Fund	<u>(\$3,061,892)</u>	<u>(\$3,061,892)</u>	<u>(\$3,061,892)</u>
STATE SCHOOL MONEYS FUND			
<u>Income</u> - Increased Transfers from General Revenue Fund	\$3,061,892	\$3,061,892	\$3,061,892
<u>Cost</u> - Increased Distributions School Districts	<u>(\$3,061,892)</u>	<u>(\$3,061,892)</u>	<u>(\$3,061,892)</u>
ESTIMATED NET EFFECT ON STATE SCHOOL MONEYS FUND	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2004	FY 2005	FY 2006
SCHOOL DISTRICTS			
<u>Income</u> - Increased State Aid*	<u>\$3,061,892</u>	<u>\$3,061,892</u>	<u>\$3,061,892</u>

* Statewide, school districts would see an increase in state aid. However, the distribution of the available money, if the appropriation is insufficient to provide for a proration factor of 1.00, would have an unknown impact in individual schools—some would be impacted positively and some negatively.

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

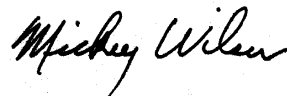
This proposal revises the calculation of state aid for education. The current formula for state school aid includes an entitlement line that calculates the amount of state and local funds necessary for the operation of each school district. This line is currently divided into a line 1A, which calculates an entitlement amount for districts at or below the minimum levy, and line 1B, which calculates an entitlement figure for any portion of a levy above the minimum, so that in years in which the formula may go underfunded, the minimum levy amount will get priority. This proposal combines line 1A and 1B and also removes payment in lieu of taxes from the list of local wealth sources which are deducted from the entitlement figure.

The proposal has an effective date of July 1, 2004.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Office of Administration
Division of Budget and Planning
Department of Elementary and Secondary Education



Mickey Wilson, CPA
Director
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